

Ms. Myria A. Polydrou, Vice President, Finance
Health Care Corporation
Post Office Box 5419
Spartanburg, South Carolina 29304

Re: AC# 3-VFT-J8 – Valley Falls Terrace, Inc. d/b/a
Valley Falls Terrace Nursing Center

Dear Ms. Polydrou:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract periods beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

Ms. Myria A. Polydrou, Vice President, Finance
Health Care Corporation
Post Office Box 5419
Spartanburg, South Carolina 29304

Re: Draft Report - AC# 3-VFT-J8 – Valley Falls Terrace, Inc. d/b/a
Valley Falls Terrace Nursing Center

Dear Ms. Polydrou:

The accompanying draft report has been prepared by our office. Please review the adjustments as presented.

If you have any questions concerning this report and would like a formal exit conference with the auditors, please write to me regarding the establishment of a meeting date. Your correspondence should include the above referenced control number. Your request for a conference must be made within ten (10) calendar days of your receipt of this report, and the conference must be held within twenty (20) calendar days of your receipt of this report. Any additional documentation in support of allowable cost must be received by our office no later than twenty (20) calendar days after your receipt of this report.

If we do not hear from you within ten (10) calendar days of your receipt of this report, we will assume you do not want an exit conference. In this case, I will reissue this report to you in final form and you will have thirty (30) calendar days in which to file a formal appeal if you so desire.

Yours very truly,

R. James McClam, CPA
Director of Federal Audits

RJM/ks

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

Ms. Brenda L. Hyleman, Director
Division of Home Health and Nursing Home Services
Department of Health and Human Services
Post Office Box 8206
Columbia, South Carolina 29202-8206

Re: Draft Report - AC# 3-VFT-J8 – Valley Falls Terrace, Inc. d/b/a
Valley Falls Terrace Nursing Center

Dear Ms. Hyleman:

Please review the adjustments contained in the accompanying draft report. If you have any comments or disagreements with the adjustments and resulting computations, please contact me within ten (10) calendar days.

Use of the above referenced control number is requested on any subsequent correspondence pertaining to this report.

If you do not have any comments, it will be assumed you are in agreement with the report and only those concerns of the Provider, if any, will be considered prior to the issuance of the final report.

Yours very truly,

R. James McClam, CPA
Director of Federal Audits

RJM/ks

cc: Mr. Jeff Saxon
Mr. Robert M. Kerr

**VALLEY FALLS TERRACE, INC. D/B/A
VALLEY FALLS TERRACE NURSING CENTER

SPARTANBURG, SOUTH CAROLINA**

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1999
AC# 3-VFT-J8**

**REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1999	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1999	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1998	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	8

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 24, 2000

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Valley Falls Terrace, Inc. d/b/a Valley Falls Terrace Nursing Center, for the contract periods beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Valley Falls Terrace, Inc. d/b/a Valley Falls Terrace Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Valley Falls Terrace, Inc. d/b/a Valley Falls Terrace Nursing Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 24, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

VALLEY FALLS TERRACE, INC. D/B/A VALLEY FALLS TERRACE NURSING CENTER
Computation of Rate Change
For the Contract Periods
Beginning October 1, 1999
AC# 3-VFT-J8

Interim Reimbursement Rate (1)	\$83.77
Adjusted Reimbursement Rate	<u>83.31</u>
Decrease in Reimbursement Rate	\$ <u><u>.46</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

VALLEY FALLS TERRACE, INC. D/B/A VALLEY FALLS TERRACE NURSING CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Periods Beginning October 1, 1999
AC# 3-VFT-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$37.18	\$47.61	
Dietary		9.92	10.24	
Laundry/Housekeeping/Maint.		<u>8.26</u>	<u>8.89</u>	
Subtotal	<u>\$4.67</u>	55.36	66.74	\$55.36
Administration & Med. Rec.	<u>\$4.24</u>	<u>7.15</u>	<u>11.39</u>	<u>7.15</u>
Subtotal		62.51	<u>\$78.13</u>	62.51
<u>Costs Not Subject to Standards:</u>				
Utilities		1.99		1.99
Special Services		.05		.05
Medical Supplies & Oxygen		4.23		4.23
Taxes and Insurance		1.23		1.23
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$70.01</u>		70.01
Inflation Factor (3.00%)				2.10
Cost of Capital				7.44
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.45
Cost Incentive				4.67
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.37)
CNA Add-On				.75
Nurse Aid Staffing Add-On				<u>1.26</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$83.31</u>

VALLEY FALLS TERRACE, INC. D/B/A VALLEY FALLS TERRACE NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-VFT-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DHHS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,189,304	\$ -	\$ -	\$1,189,304
Dietary	317,382	-	-	317,382
Laundry	54,168	-	-	54,168
Housekeeping	125,570	-	-	125,570
Maintenance	84,564	-	-	84,564
Administration & Medical Records	243,899	-	15,320 (4)	228,579
Utilities	63,647	-	-	63,647
Special Services	1,650	-	-	1,650
Medical Supplies & Oxygen	135,159	-	-	135,159
Taxes & Insurance	39,335	-	-	39,335
Legal Fees	114	-	-	114
Cost of Capital	237,344	4,429 (2)	3,895 (1)	237,859
	<u> </u>	<u> </u>	<u>19 (3)</u>	<u> </u>
Subtotal	2,492,136	4,429	19,234	2,477,331

VALLEY FALLS TERRACE, INC. D/B/A VALLEY FALLS TERRACE NURSING CENTER

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-VFT-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Ancillary	9,936	-	-	9,936
Non-Allowable	11,495	3,895 (1)	4,429 (2)	26,300
		19 (3)		
	<u> </u>	<u>15,320 (4)</u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$2,513,567</u>	<u>\$23,663</u>	<u>\$23,663</u>	<u>\$2,513,567</u>
TOTAL PATIENT DAYS	<u>31,987</u>	<u>-</u>	<u>-</u>	<u>31,987</u>

TOTAL BEDS 88

VALLEY FALLS TERRACE, INC. D/B/A VALLEY FALLS TERRACE NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-VFT-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$ 3,895	
	Accumulated Depreciation	36,530	
	Fixed Assets		\$24,499
	Cost of Capital		3,895
	Other Equity		12,031
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	4,429	
	Nonallowable		4,429
	To adjust capital return State Plan, Attachment 4.19D		
3	Nonallowable	19	
	Cost of Capital		19
	To adjust depreciation expense State Plan, Attachment 4.19D		
4	Nonallowable	15,320	
	Administration		15,320
	To disallow unnecessary working capital interest HIM-15-1, Section 202.2		
	Total Adjustments	<u>\$60,193</u>	<u>\$60,193</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

VALLEY FALLS TERRACE, INC D/B/A VALLEY FALLS TERRACE NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-VFT-J8

	<u>Old Beds</u>	<u>New Beds</u>	
Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.2493</u>	<u>2.2493</u>	
Deemed Asset Value (Per Bed)	35,130	35,130	
Number of Beds	<u>52</u>	<u>36</u>	
Deemed Asset Value	1,826,760	1,264,680	
Improvements Since 1981	137,479	36,816	
Accumulated Depreciation at 9/30/98	<u>(402,104)</u>	<u>(349,212)</u>	
Deemed Depreciated Value	1,562,135	952,284	
Market Rate of Return	<u>0.063</u>	<u>0.063</u>	
Total Annual Return	98,415	59,994	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	98,415	59,994	
Depreciation Expense	32,690	46,549	
Amortization Expense	125	86	
Capital Related Income Offsets	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	131,230	106,629	237,859
Total Patient Days (Actual)	<u>18,901</u>	<u>13,086</u>	<u>31,987</u>
Cost of Capital Per Diem	\$ <u>6.94</u>	\$ <u>8.15</u>	\$ <u>7.44</u>

VALLEY FALLS TERRACE, INC. D/B/A VALLEY FALLS TERRACE NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-VFT-J8

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$3.02	\$N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$7.01</u>	<u>\$8.15</u>
Reimbursable Cost of Capital Per Diem		\$7.44
Cost of Capital Per Diem		<u>7.44</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>